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UPDATE ON THE WORLD ECONOMY, 1991*

Note by the Secretary-General

This year, for the first time since the Second World War, total production and income in the world has fallen (see table 1). In every other year, the economic downturns in some countries were offset by economic growth in others. However, this year, economic decline is so widespread - and so deep in Eastern Europe and the Soviet Union - that it fully negates the positive impact of the more dynamic economies, principally those of China, Japan, several other Asian nations and certain Latin American countries that are emerging from long stabilization and adjustment efforts.

The global contraction arises from a confluence of events. Temporary cyclical adjustments are under way in several developed market economies. The declines are within the usual range for cyclical movements, but the affected economies together account for about one third of world economic activity. Some other economies are being severely disrupted by war and its aftermath or civil strife, as in western Asia, Yugoslavia and a number of African countries. In addition, the economic dislocations of countries in transition from centrally planned to market economies are causing large declines in output.

The pattern of developments broadly follows the lines anticipated in the World Economic Survey, 1991, published in June, 1/ and the analysis presented there is still valid. The degree and spread of economic contraction, however, appear to have been underestimated. Global recovery is still expected to begin in 1992 and to be rather slow. The question in chapter I of the Survey thus seems to be all the more urgent: is this the best that can be done?

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* This note brings up to date the assessment of the world economy contained in the World Economic Survey, 1991 (United Nations publication, Sales No. E.91.II.C.1), issued in June 1991, and is based on information available as at 1 October 1991.

Table 1. Growth of world output by region, 1981-1992 a/

(annual percentage change in GDP)

	1981-1987	1988	1989	1990	1991 b/	1992 c/
World	2.6	4.3	2.9	1.2	-0.5	1 1/2
Developed market economies	2.5	4.3	3.3	2.4	* 1.0	2 1/2
North America	2.8	4.4	2.6	1.0	-	3
Western Europe	1.8	3.7	3.5	2.7	* 0.6	2
Developed Asia	3.7	5.9	4.6	5.1	4.0	3 1/2
Eastern Europe and the Soviet Union d/	2.6	3.7	1.4	-5.9	* -14.5	-9 1/2
Developing countries	3.1	4.9	3.1	3.0	3.3	5
Energy-exporting countries	3.1	5.5	2.8	4.0	4.5	-
Energy-importing countries	3.0	4.2	3.3	1.8	1.9	-

Source: United Nations/DIESA.

* Indicates discontinuity in the series owing to the accession of the former German Democratic Republic to the Federal Republic of Germany.

a/ For definition of country groupings, see World Economic Survey, 1991.

b/ Preliminary estimate.

c/ Forecast, based in part on Project LINK.

d/ Net material product.

Developed market economies

The decline in economic activity that began in 1990 in many of the industrialized countries continued through the first half of 1991 (see table 2). Recovery is expected to begin in the second half in several of them, but it appears to be weak, as expected, and will not give much of a push to the rest of the world economy. Moreover, it leaves behind a higher rate of unemployment that is not expected to return even to pre-recession levels in the next few years.

Table 2. Output, unemployment and inflation in seven major industrial economies, 1990-1991

	1990 quarters				1991 quarters	
	I	II	III	IV	I	II a/
Growth of gross domestic product b/						
Canada	2.1	-0.7	-1.0	-4.7	-4.8	4.9
France	3.9	0.3	3.5	-0.3	1.0	3.2
Germany, western c/	10.0	1.4	7.5	2.4	9.8	-2.4
Italy	3.5	-1.7	2.8	0.3	1.4	-
Japan c/	6.4	5.6	4.5	2.5	11.1	2.0
United Kingdom	1.7	1.7	-4.7	-3.4	-1.7	-3.8
United States c/	1.8	0.3	1.4	-1.4	-2.8	-0.5
Total	3.9	1.4	2.1	-0.6	1.6	0.2
Unemployment d/						
Canada	7.5	7.4	8.1	9.1	10.1	10.3
France	9.0	9.0	8.9	8.9	9.0	9.2
Germany, western	5.3	5.2	5.1	4.7	4.5	4.5
Italy	10.1	9.7	9.8	9.8	10.0	10.0
Japan	2.1	2.1	2.1	2.1	2.0	2.1
United Kingdom	6.7	6.7	6.8	7.3	8.2	9.2
United States	5.2	5.2	5.5	5.8	6.4	6.7
Total	5.5	5.5	5.6	5.8	6.1	6.4
Consumer prices e/						
Canada	5.3	4.6	4.2	5.0	6.5	6.2
France	3.3	3.1	3.5	3.6	3.5	3.2
Germany, western	2.7	2.3	2.7	3.1	2.7	2.8
Italy	6.4	6.1	6.5	6.8	6.4	6.2
Japan	3.3	2.4	2.8	3.9	4.2	3.6
United Kingdom	7.8	9.6	10.4	9.9	8.6	5.9
United States	5.2	4.6	5.5	6.2	5.3	4.8
Total	4.8	4.4	5.1	5.7	5.1	4.5

Source: United Nations/DIESA, based on data of the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD) and national authorities.

(Footnotes on following page)

(Footnotes to table 2)

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a/ Partly estimated.

b/ Percentage change in seasonally adjusted data from preceding quarter, expressed at annual rate (total is weighted average with weights being 1985 gross domestic product converted to dollars using purchasing power parity exchange rates, as per OECD).

c/ Gross national product.

d/ Per cent of total labour force, seasonally adjusted data as standardized by OECD.

e/ Percentage change in average consumer prices in quarter relative to same quarter of preceding year (total is weighted average with weights being annual consumption valued in 1980 prices and exchange rates).

The fall in output and income in the United States of America and Canada now appears to be ending. But, unemployment in the United States is close to 7 per cent, more than a percentage point higher than it was in 1990; Canada's unemployment, which is two percentage points above a year ago, exceeds 10 per cent. In the other major economy in outright recession, the United Kingdom of Great Britain and Northern Ireland, the unemployment rate rose above 8 per cent this summer; it had been 5.7 per cent a year before. The French economy, which stopped growing at the end of 1990, picked up some this year, but unemployment in France has nevertheless climbed back above 9 per cent. Although not in actual recession, the Italian economy is extremely sluggish; its unemployment rate is above 10 per cent. 2/

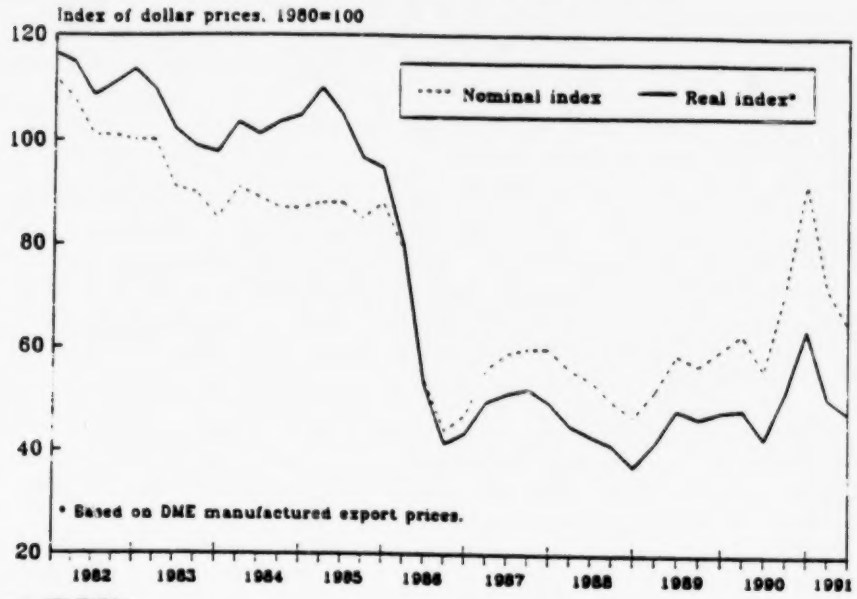
As discussed in the Survey, renewed inflationary concerns in the late 1980s led to monetary stringency that weakened several of the developed market economies in 1990, and while inflation rates have come down, some of the countries were pushed into recession. For others the coup de grâce was a drop in consumer and business sentiment associated with the crisis situation between Iraq and Kuwait that arose in August 1990. However, after the war in the Middle East ended, confidence returned in several industrial countries and the spending slide eased. The sharp run-up in international petroleum prices that occurred in the last third of 1990 was largely unwound by the first quarter of 1991 (see figure I). Non-fuel commodity prices on international markets have weakened further (see figure II). Coupled with the recessionary dampening of wage movements, fears about inflation have eased and policy makers in several countries relaxed monetary conditions.

In the United States, the Federal Reserve reduced its discount rate from 7 per cent to 5 per cent in several stages from December 1990 to September 1991. Reserve requirements were also relaxed. The full range of short-term interest rates has fallen significantly throughout the year; longer-term rates have declined less. But, there is some concern that a given degree of monetary easing may have become less stimulative than before because of a new reticence of financially weakened banks to add possibly risky loans to their portfolios.

In the case of Japan, the central bank took the opportunity of a calming of inflationary concerns to ease monetary policy slightly in order to bolster the domestic impulse to economic growth. While the external impulse to growth had been quite strong and there was a surge in investment until the first quarter of 1991, domestic demand moved into a period of adjustment in the second quarter. Indeed, investment spending has now slowed. Meanwhile, various scandals in the financial markets and the banking sector are seen as a threat to confidence and have raised some concern about the smooth financing of investment.

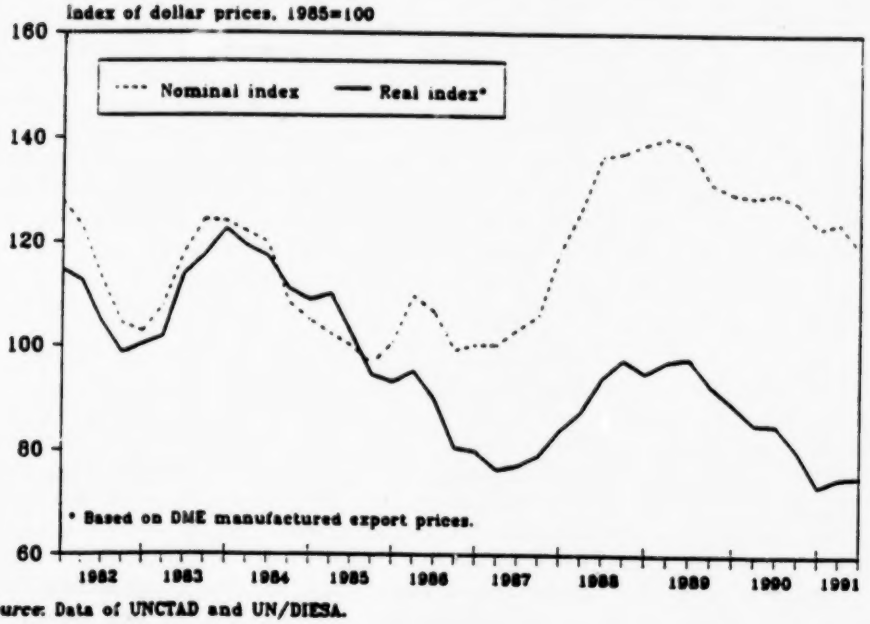
The strong economic growth of Germany in the early part of 1991, or more precisely western Germany, was viewed with some unease by the German authorities who feared a growing fiscal deficit and rising inflation. The prime source of the increment to demand was, of course, the unification of the country. The demand stimulus entailed large financial transfers from the

Figure I. Average fuel import prices of developed market economies, 1982-1991



Source: UN/DIESA.

Figure II. Prices of developing country non-fuel commodity exports, 1982-1991



Source: Data of UNCTAD and UN/DIESA.

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Federal Government to the eastern Länder that were financed by government borrowing. The Government and the central bank have sought to ease these demand pressures through both monetary and fiscal tightening. Thus, the Bundesbank raised official interest rates to the highest levels they have been since 1982 and the Government imposed a significant tax increase from 1 July, along with other measures of fiscal tightening.

It was argued in the Survey that a policy stimulus was warranted in the major industrial economies to boost the weak recovery that had been forecast. But Germany and certain smaller European countries that are intimately linked to the German economy have since tightened policy, while Canada, Japan, the United Kingdom and the United States have eased their monetary reins moderately. Under these conditions, growth of the developed market economies could average 3 per cent a year from 1992 to 1995. The Japanese economy might grow over 4 per cent a year on average, but Germany would grow at half that rate. 3/

Under this outlook, the case for an additional policy stimulus still seems valid. Although 3 per cent growth for the aggregate of the developed market economies may be acceptable as a long-run average, the 2.5 per cent expected in 1992 is quite weak for a recovery from recession. Income and investment could instead be raised and unemployment lowered in several large economies without setting off a new inflationary spiral. The stronger growth in those economies would also have a salutary effect on major trading partners, indeed on the world economy.

The United States is one of the economies that could add further policy stimulus. Unemployment benefits are running out in several regions of the country and need to be extended for reasons of equity, let alone fiscal policy; 4/ in addition, since the growth in money supply is unusually low (particular M_2), a further easing of United States monetary conditions is warranted for a stronger but still non-inflationary recovery.

As for Germany, had the Economic and Monetary Union that is being negotiated in the European Community already been in place and policy made under a broader European perspective, 5/ the German fiscal deficit might not have grown to the same degree in the first place; nor would monetary policy have had to be tightened so much. Indeed, if Germany reduced interest rates today, it would likely be quickly echoed across Europe.

Economies in transition

A revolution is under way in Eastern Europe and the Soviet Union. Perhaps it is inherent in such circumstances that policy-making entails over-optimistic expectations, experiments with untried proposals and "learning by doing". Severe economic disruption could be expected; indeed, with output estimated at 10-15 per cent less than in 1990, it is happening. Total production has continued to fall sharply even in the countries that were expecting positive growth, notably Poland and Romania (see table 3). In the region as a whole, industrial production (the only fairly comprehensive indicator available thus far) is estimated to have fallen 16 per cent. In the

Table 3. Eastern Europe and the Soviet Union: rates of growth of output, 1981-1991

(annual percentage change in net material product)

	1981-1987	1988	1989	1990	1991 a/
Eastern Europe and the Soviet Union	2.6	3.7	1.4	*-5.9	*-14.5
Soviet Union	2.8	4.4	2.4	-4.0	-15.0
Eastern Europe	2.2	2.1	-1.0	*-10.6	*-13.3
Bulgaria	4.1	2.4	-0.4	-13.6	-22.0
Czechoslovakia	1.9	2.3	1.0	-3.0	-15.0
German Democratic Republic b/	4.3	2.8	2.1	*-13.4	-
Hungary	1.6	-0.5	-1.1	-5.5	-5.0
Poland	0.4	4.9	-0.2	-13.0	-12.0
Romania	2.6	-2.0	-7.9	-10.5	-9.5

Source: United Nations/DIESA and Economic Commission for Europe (ECE), based on national and international sources.

* Indicates discontinuity in the series.

a/ Secretariat estimate.

b/ GDP for 1990 (estimates provided to ECE by the Deutsches Institut für Wirtschaftsforschung, Berlin); as of 1991, German Democratic Republic is included in "Germany".

Soviet Union, gross national product is said to have been 10 per cent less than in the first half of 1990, while net material product, the traditional measure of aggregate output in the Soviet Union, appears to have fallen even more. 6/

The degree of confidence of external investors in the economies of Eastern Europe and the USSR is still quite depressed. One indicator is that private external financing arranged for the entire region in the first half of 1991 was virtually nil ($300 million), compared to about $4.5 billion, albeit over 12 months, in each of the previous three years. 7/ Even with creditor

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government guarantee, many international banks are passing up lending opportunities to the region, which has become virtually fully dependent on official creditors. Indeed, of the $6.8 billion of lending arrangements agreed to by the International Monetary Fund in the first half of 1991, $5 billion were for Eastern Europe.

One key source of the difficulties in 1991 is the virtual collapse of trade among the countries of the region. A decline in intraregional trade had been anticipated because of the decision by the Governments of the region in 1990 to move to hard-currency payments for intraregional trade instead of settlement in an accounting currency known as the transferable rouble under the now defunct Council for Mutual Economic Assistance. Indeed, the last remnants of trade in transferable roubles took place in the first half of 1991 as previously agreed trade protocols expired. Without adequate foreign exchange reserves or the institutional infrastructure for carrying out hard-currency trade (e.g., payment clearing mechanisms, rediscount facilities and export credit/guarantee operations), the trade among these economies plummeted. In particular, the value of Eastern European exports to the Soviet Union appears to have been halved and their imports from the USSR have fallen a fifth. Meanwhile, all countries struggle to expand exports to the developed market economies where demand is sometimes limited by policy (e.g., in agriculture and textiles) and demand is in any event constrained by the recession discussed above.

Difficulties have arisen as well on the domestic side of adjustment. Fixed investment in the first six months of 1991 is estimated to have fallen about 20 per cent in Eastern Europe and by 16 per cent in the Soviet Union. In the case of the latter, the worst-performing industries were precisely those which are important for speeding up structural changes, namely, energy, machine building, chemicals, transport and communication, as well as socially important industries such as housing. Adjustment is supposed to entail the closing and retooling or replacement of inefficient plants, but without investment only the first step will be achieved.

Macroeconomic stabilization is another essential component of economic transition. Investments are not readily undertaken (nor foreign partners encouraged to commence activities) when inflation is not under control, State budget deficits are seen to exceed targets in part because of burgeoning tax evasion by the nascent private sector, and social tensions rise on the back of unemployment rates that reach levels not yet seen in the post-war era. 8/

Unemployment is an inevitable part of the economic transformation process, but it must be perceived as temporary and ameliorated with an adequate social safety net. It is thus quite disturbing that inflation has been exceeding expectations in almost all countries of the region, whether their adjustment process began only recently or was under way for some time. Extended anti-inflationary contractions mean worsening unemployment in the short to medium run. Even in countries with established transition programmes, substantial productivity gains are urgently needed to meet the challenge of the world market. Enterprise management will be under great

pressure to shed non-essential labour and it is likely that the evolving but still rather limited private sector will not be able to absorb the additional pool of workers for some time.

Yet, it can be said that most Governments of economies in transition are following explicit strategies for transformation. The most troublesome situations occur when the processes of discrediting the old have not readily turned themselves into processes of defining and refining the new. The tumultuous political events in the USSR in August, one of the outcomes of which was the secession of the three Baltic States and their becoming members of the United Nations, also established new loci of decicion-making in the Soviet Union. The short-run effect of these events might be an intensification of the disruption of economic activity. But in the longer term, there is cause for optimism as it appears that the protracted period of equivocation and hesitation in economic transformation has ended. Under the best of circumstances, however, what lies ahead in the Soviet Union as in Eastern Europe are a number of extremely difficult years. It is quite possible that in several countries of the region total output at the end of this decade will still be lower than it was in 1980.

Developing countries

Output in the developing countries is increasing by about 3 per cent in 1991, essentially the same rate as in the past two years. This is only marginally above the rate of growth of population and implies a less than 1 per cent increase in per capita output. Much of this low growth resulted from the continuing stagnation of output in large Latin American economies. But prospects have dimmed for a number of countries in other regions as well. Recent changes in the international environment favoured some developing countries, but were unfavourable to most. The differences in the rate of growth between oil-exporting and oil-importing developing countries in 1990 and in 1991 are only one illustration (see tables 1 and 4).

The variations in the ability of developing countries to adjust their economies and compete in the changed international environment have increased. A few success stories contrast with many more failures. From the lessons accumulated in attempts to implement economic reform during the 1980s and in 1990, it becomes clear that no single domestic policy package is applicable everywhere, except for some very general prescriptions regarding unsustainable macroeconomic imbalances. 9/

In Latin America and the Caribbean, output is projected to grow by less than 2 per cent in 1991, after a decline of 0.7 per cent in 1990. Some of the major economies of the region are beginning to achieve a modicum of economic growth after years of stabilization and adjustment efforts, but the overall picture remains one of stagnation of output and falling living standards. Significant growth is expected in the two large energy producers, Mexico and Venezuela, and in Chile. A long period of economic reform is beginning to bear fruit in Mexico, where output is expected to grow by about 4 per cent in 1991. In Venezuela, developments in the oil sector are accelerating the

Table 4. Developing countries: rates of growth of gross domestic product, 1981-1991

(Annual percentage change)

	1981-1987	1988	1989	1990	1991 a/
Africa	1.2	2.1	3.3	3.3	3.1
Energy exporters	1.0	0.7	3.4	4.2	3.9
Energy importers	1.5	4.5	3.1	1.7	1.6
China	10.0	11.3	3.3	5.0	6.0
South and East Asia	7.1	8.8	5.9	6.3	5.0
West Asia	-1.6	1.1	2.5	2.0	1.1
Mediterranean	3.2	1.4	1.0	0.4	-4.5
Western hemisphere	1.2	0.8	1.1	-0.7	1.8
Energy exporters	0.9	2.2	-0.2	2.4	3.9
Energy importers	1.4	-	1.8	-2.4	0.6
Total	3.1	4.9	3.1	3.0	3.3

Source: United Nations/DIESA.

a/ Preliminary estimate.

economic recovery of 1990 to an expected growth of gross domestic product of 7 per cent in 1991. In Chile, the economy is being fuelled largely by an expansion of exports and will probably grow by about 5 per cent during the year. However, the largest economy of the region, Brazil, continues to decline. After a fall of close to 5 per cent in 1990, output in the country is expected to decline by about 1 per cent in 1991, while the Government struggles to jump political hurdles in its attempts at economic reforms. For Argentina, where output has been falling since 1988, there is some optimism that economic reform may now have put the worst of the economic decline behind it.

Although the adverse impact of the Gulf conflict on the world economy has faded, it remains serious for a number of countries in West Asia. In Kuwait, production of oil in 1991 is expected to be only a fraction of its pre-conflict level. Though reconstruction activities began soon after the end of the war, total output in the economy may be lower by 30 per cent or more, after a similar fall in 1990. Great uncertainties also surround the economic prospects of Iraq. Available information points to an almost 50 per cent decline in the output of the economy in 1991, after a 30 per cent decline in

1990. In Jordan, the third most affected country in the region, output is expected to decline by about 10 per cent in 1991, following a similar fall in 1990. The economic growth of other energy exporters of the West Asian region was stimulated by the temporary rise in oil prices in 1990 and the disappearance of Iraq and Kuwait from the international market. The Islamic Republic of Iran, Saudi Arabia and the Syrian Arab Republic are expected to grow by 5 to 7 per cent. Nevertheless, the large decline in output in Iraq, Jordan and Kuwait is reducing the 1991 growth rate of the region as a whole to almost nil.

Output in Africa is expected to grow by about 3 per cent, about the same as in the previous two years. As Africa's population grows by about the same rate, per capita output will remain unchanged for a third consecutive year, following almost a decade of decline. The energy-exporting countries are expected to grow by about 4 per cent. For the energy-importing countries of the region, the rate of growth is unlikely to exceed 2 per cent, which is well below their rate of growth of population. The growth of agricultural output, though widely different among the subregions, has generally been satisfactory and this, coupled with receding oil prices, has contributed to growth in some of the oil-importing countries of the continent. Rainfall has been good during the planting season, except for some parts of eastern and southern Africa. The threat of acute food shortage or famine remains, primarily in Ethiopia, Somalia and the Sudan. The output decline in these countries and in Côte d'Ivoire and Zaire largely offsets the modest growth in some of the other oil-importing countries of the continent. On the whole, as African per capita output is stagnant, per capita income continues to decrease as terms of trade deteriorate. While attempts at economic reform and diversification continue in many countries of the continent, their results have yet to be translated into sustained increases in output and income.

In South and East Asia, growth is projected to slow down from 6.3 per cent in 1990 to about 5 per cent in 1991; but the region will remain the fastest growing in the world. Much of the slow-down is occurring in India, the largest country in the region, which is expected to grow by about 3 per cent compared with an average of 5 per cent in recent years. Its Government is taking major steps to reduce the recent large fiscal and current account deficits that precipitated the present crisis. Economic growth is also expected to slow to about 2 per cent in the Philippines and about 5 per cent in Pakistan and Sri Lanka. As Bangladesh is recovering from a devastating cyclone in April, its economic growth is expected to slow to 3 per cent. Indonesia, the Republic of Korea, Malaysia, Singapore and Thailand, on the other hand, are growing at a rate of 7 per cent or more, among signs of overheating in some of these economies. Inflation has been increasing in most countries of the region, including those where growth has been slowing down.

In China, devastating floods in May were reported to have caused large losses of infrastructure and output. Large areas of the country experienced crop losses, while there was an almost concurrent drought in others. These factors seem to be holding back the growth of agriculture production to less

than 2 per cent in 1991. Industrial production, however, is estimated to have increased by 13 per cent in the first six months of the year over the level of the same period in 1990. As a result, China's gross national product is expected to increase by about 6 per cent. The pace of growth, coupled with the deregulation of certain prices, shortfalls in agricultural output and the strain on government finances resulting from the flood damage, could increase inflation and necessitate another dose of austerity measures. Stability remains a primary concern of government policy.

The economic situation in the Mediterranean grouping of countries is dominated by a sharp fall in output in Yugoslavia. Severe political unrest leading to armed internal conflict disrupted the economic links between the country's highly interdependent constituent republics. Industrial production during the first half of 1991 was reported to be 20 per cent below that of the corresponding period of 1990. But the deterioration has accelerated since the middle of the year and total output for 1991 as a whole may be 30 per cent below the level of 1990. In Turkey, the other large economy in the grouping, output is expected to grow about 5 per cent. This is down from a high of 9 per cent in 1990, partly in response to tightening fiscal and monetary policies.

The multilateral agenda

National policies are made in an international context. At the end of the third quarter of 1991, several key multilateral decisions are pending that may have major consequences for the international economic environment.

One such decision entails successfully bringing to a close the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT). This is essential to strengthen the multilateral trading system and push back protectionist trade barriers. The Round had been scheduled for completion in December 1990, but the year ended with only a decision to continue negotiating. The inability of major country groups to agree on the means and extent of the liberalization of agricultural trade has been a major stumbling block. Agreement in other key aspects of the Round appears to have been tied to adequate progress in agriculture. At the Summit of the seven major industrialized nations, held in London in July 1991, the heads of State or Government offered to personally intervene, if necessary, to move the negotiations forward. With only three months left to the year, the time for action seems to have arrived.

Meanwhile, some trade disputes continue to be addressed through aggressive unilateralism and bilateral arrangements outside the GATT framework. At the same time, interest in special trading arrangements among limited numbers of countries continues to build. Negotiations are set to create a Canada-Mexico-United States free-trade area. Argentina, Brazil, Paraguay and Uruguay announced the formation of the Southern Cone Common Market and interest is growing in the creation of a fully integrated free-trade area in the Asia-Pacific region. In June, the Organization of African Unity established an African Economic Community, to be attained in

stages, leading to the eventual creation of a free-trade area, an African Common Market and a Pan-African Economic and Monetary Union. Such forms of international cooperation can be important stimuli to economic growth and development, but they are not a substitute for a strong global trading system.

Important decisions are also pending in the international financial arena. The Board of Governors of the International Monetary Fund agreed in 1990 to raise the resources of the Fund by 50 per cent through the Ninth General Review of Quotas. Implementation was tied to adoption of an amendment to the Articles of Agreement of the Fund pertaining, in essence, to members that allow extensive arrears to the Fund to build up. 10/ The amendment was drafted in 1990. Now the 31 December deadline for members to consent to the quota increase is fast approaching. The deadline can be extended, but in the light of an expanded role of IMF in lending to the economies in transition and its continued role in developing countries, it is incumbent on the major contributors to the Fund to act quickly on their commitments.

The bulk of IMF lending, like that of the multilateral development banks, is on virtually commercial terms. Yet, many heavily indebted middle- and lower-income countries cannot service their already outstanding debt. This has been increasingly recognized by private and official creditors through debt-reduction operations. 11/ Major progress was achieved in Egypt and Poland, and more recently in Jamaica, among other countries. Certain major agreements with private creditors are still pending, in particular those for Argentina and Brazil. Assistance from the international community in successfully bringing the negotiations to a close would relieve the debt overhang and remove a major uncertainty about the balance-of-payments outlook of the affected countries.

Action is warranted as well by the major government creditors on improving the terms of relief accorded to low- and middle-income countries through the Paris Club. Even if creditor Governments differ in the means by which they would alter the net foreign cash flow, it should be possible, as in the past, to devise a menu of more concessional options in the Paris Club for equivalent burden-sharing among creditors so as to address the incontrovertible need to improve the net transfer of resources to these countries.

In May 1990, the General Assembly adopted the Declaration on International Economic Cooperation, in particular the Revitalization of Economic Growth and Development of the Developing Countries, and in December it adopted the International Development Strategy for the Fourth United Nations Development Decade. The Strategy, reflecting the principles explicit in the Declaration, sets out the international consensus on the main directions for international cooperation for development in the 1990s. There is, however, increasing concern that the demand for resources stemming from new developments such as the major transformation in Eastern Europe and the USSR might outstrip the available resources.

The October meetings of the IMF Interim Committee and the IMF/World Bank Development Committee, inter alia, will address the question of the gap in global resources. The eighth session of the United Nations Conference on Trade and Development, to be held in February 1992, will also address development finance issues. The United Nations Conference on Environment and Development, in June 1992, will touch upon key elements of the Declaration and the International Development Strategy as well. These forums will provide the opportunity for major progress towards specific measures to implement the international consensus.

However, the ongoing reduction in military expenditures and a stronger non-inflationary recovery of the industrial countries in 1992 would certainly facilitate the tasks of the forthcoming meetings and, more generally, help the international community fulfil the objectives of the Declaration and the International Development Strategy.

Notes

1/ United Nations publication, Sales No. E.91.II.C.1.

2/ In the first half of 1991, several of the smaller developed market economies also were in recession, notably Finland, Sweden, Australia, New Zealand and South Africa. As with the major economies, their recessions were largely driven by domestic considerations and their recoveries are expected to be weak.

3/ The underlying, model-based forecast of Project LINK for western Germany alone averages 1.7 per cent a year; the all-Germany growth rate would be pulled up by the assumption that recovery takes hold in the eastern Länder.

4/ Such expenditures are not part of the structural deficit. If the United States recovery were stronger than anticipated, drawings on the expanded unemployment benefits would be less than expected and the fiscal impact reduced, which is precisely why such an "automatic stabilizer" is an appropriate form of fiscal impulse.

5/ See World Economic Survey, 1991 ..., pp. 83-90.

6/ Great caution is required in interpreting quantitative economic indicators of several of the economies in transition, as their statistical methodology and data collection are in flux. What is not controversial is that the region is in a major economic decline.

7/ Data of OECD, Financial Statistics Monthly, July 1991.

8/ Poland's open unemployment rate reached 9 per cent in July and was still rising. Bulgaria and Romania had unemployment rates of about 10 per cent, while in Czechoslovakia and Hungary they were about 5 per cent.

Notes (continued)

9/ The experience in economic policy reform during the 1980s is analysed in the report of the Secretary-General on economic stabilization programmes in developing countries (A/46/385).

10/ Several billion dollars of arrears to the Fund, the World Bank and other multilateral creditors accumulated in the late 1980s, but an international strategy to assist Governments that seek to clear the arrears has been initiated (for details, see World Economic Survey ..., pp. 157-158).

11/ The current status of the situation is reviewed in the report of the Secretary-General on the recent evolution of the international debt strategy (A/46/415).